STATE OF DELAWARE

PUBLIC SERVICE COMMISSION
861 SILVER LAKE BLVD.
CANNON BUILDING, SUITE 100
DOVER, DELAWARE 19904

TELEPHONE: (302) 736-7500
FAX: (302) 739-4849

July 22, 2015

MEMORANDUM

TO: Members of the Commission

FROM: Shona Marshall, Public Utilities Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF LONG-TERM DEBT (JULY 6, 2015) –PSC DOCKET NO. 15-1051

Application

On July 6, 2015, Chesapeake Utilities Corporation ("Chesapeake" or the "Company"), filed an application requesting approval for the issuance of up to $300,000,000 of Chesapeake unsecured long-term debt securities ("LTD"). If this application is approved, the Company anticipates using the proceeds primarily to finance capital expenditures and potential future capital projects..

Chesapeake's expected capital expenditures for 2015 are primarily investments in its regulated natural gas distribution and transmission business segments. The Company expects that the debt will be needed to finance upgrades, expansions, and infrastructure reliability projects for natural gas distribution and transmission for the Company's regulated energy division keeping in alignment with the Company's strategic plan. Additionally, the Company has advised that depending on the timing of these capital requirements and funding of the new issue debt, it's possible the Company may utilize the proceeds of the newly-issued debt to pay down a portion of its outstanding debt under its short-term revolving lines of credit. The Company may also elect to issue other comparable agreements, with similar terms and conditions, to new and/or other existing debt holders. The Company has requested Commission approval at this time because it intends to execute a note agreement immediately upon approval.

The Company has received approval from its Board of Directors on March 4, 2015 to enter into unsecured long-term debt ("LTD") agreements for up to $300,000,000 with an initial funding authorization up to $200,000,000. The Company expects to request authority from its Board of Directors to authorize additional funding up to $100,000,000 in the year 2016, as needed. Upon approval of the Commission, the Company intends to secure an unsecured revolving credit facility from PNC Bank in the amount of $150,000,000 with an expiration date of five years from the closing date, expected to be on or before September 30, 2015. Pricing is expected to be based on the LIBOR rate plus interest margin of 1.25% or less. Additionally, the Company intends to enter into a $150,000,000 shelf facility agreement[1] with Prudential Investment Management, Inc. The Company would be able to make funding requests for a period up to three years and borrowings can be for a maturity of up to a fifteen year average life. The shelf facility agreement allows the Company the opportunity to borrow on an as needed basis to meet financial obligations in a timely manner, while granting the flexibility to pursue alternative lending agreements with more favorable terms, conditions, and interest rate offerings.

Staff's Review:

Staff performed a review of the application and additional supporting documents provided by the Company for accuracy and completeness. The mathematical calculations of the schedules provided in the application were also reviewed. Staff has calculated the before and after issuance of the debt to equity rates and summarized the percentages in the chart below.

	Before Issuance	**After Issuance**
Debt Percentage	42.41%	56.23%
Equity Percentage	57.59%	43.77%

The Company has represented that this debt issuance is consistent with its current debt covenants which limit the level of unsecured debt to total capitalization to 65%.

Staff has also reviewed a copy of a legal opinion dated July 6, 2015, by Parkowski, Guerke & Swayze for Chesapeake regarding the legality of the proposed issuance of up to $300,000,000 in LTD. This legal opinion represented that based on its knowledge of the applicable statute (26 Del. C. §215) and

[1] An agreement between a lender and a borrower whereby the lender agrees to make funding available to the borrower, but is under no obligation to provide a specific amount of money. The interest rate on each funding is determined at the time of the request and is based on market conditions at the time of funding.

its regulatory and judicial interpretation and application, the proposed issuance of unsecured notes for the purposes set forth in the application is valid and in accordance with law, subject to any necessary approval on the part of the Maryland and/or Florida Public Service Commission, compliance by Chesapeake with all applicable federal securities laws, and approval of the Board of Directors of Chesapeake.

Staff's Recommendation:

Staff's review indicates that the Company has complied with the filing requirements to issue up to $300,000,000 in LTD pursuant to 26 Del. C. §215, in that the issuance is made in accordance with law, is made for a proper purpose, and is consistent with the public interest. Therefore, Staff respectfully recommends that the Commission approve Chesapeake's application for the reasons stated above and subject to the conditions that (i) Chesapeake's Delaware Division may not construe this approval as a ratemaking treatment for future case filings; (ii) Chesapeake must obtain the prior approval of its Board of Directors as to the actual amount of LTD to be issued and the terms and conditions of any issuance; (iii) within 30 days of the closing of the issuance of the $200,000,000 and the $100,000,000 of LTD, the Company must file copies of its fully executed note agreements for this application and any other documents or information required by 26 Del. Admin. C. § 1002, Part D, 4.0 with the Commission; and (iv) Chesapeake must obtain any additional necessary approvals from the Maryland and/or Florida Public Service Commission and comply with all applicable federal securities laws.